

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 SAM-01 AGR-05 /086 W
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P R 311225Z JUL 76

FM AMEMBASSY MADRID

TO SECSTATE WASHDC PRIORITY 6602

INFO USMISSION OECD PARIS

C O N F I D E N T I A L MADRID 5891

E.O. 11652:GDS

TAGS: ECON, EFIN, SP

SUBJECT: LIMITED ECONOMIC MEASURES FROM COUNCIL OF MINISTERS

REF: MADRID 5643

1. ECONOMIC MEASURES AGREED TO IN COUNCIL OF MINISTERS MEETING IN LA CORUNA JULY 30 WERE LIMITED TO MODEST EFFORTS TO STIMULATE CONSTRUCTION OF PUBLIC HOUSING, IMPROVE MARKETING OF FOOD PRODUCTS, INCREASE PRICE OF MILK TO FARMERS, ASSIST FISHERMEN, AND CARRY OUT LIMITED PUBLIC WORKS IN GALICIA. COUNCIL ANNOUNCED IT WOULD AT SUBSEQUENT MEETINGS ISSUE DECREES DEALING WITH PRICES, EMPLOYMENT, INCOMES, SAVINGS AND INVESTMENTS, AND FISCAL AND MONETARY POLICY. MEASURES ANNOUNCED THUS FAR ARE MICRO-ECONOMIC, MODERATELY EXPANSIONARY, AND WILL NOT BE HELPFUL TO DEALING WITH SERIOUS PROBLEMS OF INFLATION AND BALANCE OF PAYMENTS. SOME MEASURES, SUCH AS BETTER PRICES FOR DAIRY FARMERS, ASSISTANCE TO FISHERMEN, AND PUBLIC WORKS EXPENDITURES ARE AIMED SPECIFICALLY AT GALICIA WHERE COUNCIL MET.

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2. COUNCIL SAID REAL INVESTMENT IN PUBLIC HOUSING HAS

NOT INCREASED OVER PAST 10 YEARS AND THAT 70 PERCENT OF LIVING QUARTERS CONSTRUCTED HAVE GONE TO HIGH AND MIDDLE INCOME QUARTERS CONSTRUCTED HAVE GONE TO HIGH AND MIDDLE INCOME FAMILIES. PLAN IS TO DIRECT PUBLIC AND PRIVATE CREDIT FOR CONSTRUCTION OF 450,000 DWELLINGS OVER 3 YEARS WITH NEW CONCEPTS (UNSPECIFIED) TO ASSURE QUALITY AND PREVENT SPECULATION. EXPENDITURES THIS YEAR ESTIMATED AT \$118 MILLION. OFFICIAL CREDITS FOR PUBLIC WORKS IN GALICIA, INCLUDING SPORTING INSTALLATIONS, WILL BE APPROXIMATELY \$33 MILLION. OTHER MEASURES LEFT UNQUANTIFIED.

3. MEETING OCCURRED AMIDST SPECULATION GOVERNMENT MIGHT ANNOUNCE A MORE COMPREHENSIVE STABILIZATION PROGRAM AND GROWING TALK OF POSSIBLE DEVALUATION. THE CONTINUING HIGH RATE OF INFLATION AND BALANCE OF PAYMENTS SITUATION, COUPLED WITH PUBLICITY GIVEN TO RECENTLY PUBLISHED INI REPORT WHICH CLAIMED INCREASED CAPITAL FLIGHT AND EXTERNAL DISEQUILIBRIUM COULD FORCE ANOTHER DEVALUATION, FED FIRE TO SUCH SPECULATION. WHILE PESETA HAS BEEN UNDER SOME PRESSURE, HAS BEEN PERMITTED TO FLOAT DOWNWARD TO PRESENT RATE OF JUST OVER 68 TO THE DOLLAR, AND PROBABLY WILL CONTINUE DOWNWARD, FINANCE MINISTRY AND BANK OF SPAIN DO NOT FAVOR ABRUPT DEVALUATION WHICH, TO BE SUCCESSFUL, WOULD HAVE TO BE ACCOMPANIED BY EXTENSIVE STABILIZATION MEASURES WHICH ARE NOT DEEMED POLITICALLY FEASIBLE.

4. DECISIONS BY COUNCIL OF MINISTERS DEMONSTRATE THAT GOS HAS, AS WE SUSPECTED IT WOULD, OPTED TO PROCEED CAUTIOUSLY WITH SERIES OF STEP-BY-STEP MEASURES RATHER THAN TO PRESENT OVERALL ECONOMIC PROGRAM. EXPANSIONARY NATURE OF LIMITED MEASURES ANNOUNCED THUS FAR DO NOT AUGUR WELL FOR GOVERNMENT'S WILLINGNESS TO COME TO GRIPS EFFECTIVELY WITH ITS SERIOUS ECONOMIC PROBLEMS OF INFLATION AND BALANCE OF PAYMENTS DISEQUILIBRIUM. STABLER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC PROGRAMS, CENTRAL LEGISLATURE
Control Number: n/a
Copy: SINGLE
Draft Date: 31 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MADRID05891
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760296-0808
From: MADRID
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976072/aaaaaavs.tel
Line Count: 98
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 MADRID 5643
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 27 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 APR 2004 by buchant0>; APPROVED <07 SEP 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: LIMITED ECONOMIC MEASURES FROM COUNCIL OF MINISTERS
TAGS: ECON, EFIN, SP
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006